

Report of the auditor-general to the Western Cape Provincial Parliament and the council on Central Karoo Economic Development Agency SOC Ltd

Report on the financial statements

Introduction

1. I have audited the financial statements of the Central Karoo Economic Development Agency SOC Ltd set out on pages 8 to 32, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practices (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Companies Act of South Africa, 2008 (Act No. 71 of 2008) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Central Karoo Economic Development Agency SOC Ltd as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008).

Emphasis of matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Going Concern

8. Note 18 to the financial statements indicates that the Central Karoo Economic Development Agency SOC Ltd had accumulated losses of R2 288 311 at 30 June 2016 and at that date the entity's current liabilities exceeded its total assets by R2 288 211. These conditions, along with other matters as set forth in note 18, indicate the existence of a material uncertainty that may cast significant doubt on the municipal entity's ability to operate as a going concern.

Additional matters

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Other reports required by the Companies Act

10. As part of our audit of the financial statements for the year ended 30 June 2016, I have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between the report and the audited financial statements. The report is the responsibility of the respective preparers. Based on reading the report I have not identified material inconsistencies between the report and the audited financial statements. I have not audited the report and accordingly do not express an opinion on it.

Report on other legal and regulatory requirements

11. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on

these matters.

Predetermined objectives

12. I am unable to report on the usefulness and reliability of the performance information, as the annual performance report of the municipal entity was not prepared as required by section 121(4)(d) of the MFMA.

Compliance with legislation

13. I performed procedures to obtain evidence that the municipal entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budgets

14. The 2015/16 annual budget was not approved by the board of directors before the start of the financial year, as required by section 87(4) of the MFMA.

Performance report

15. The entity's performance for the financial period under review was not reported against any measurable performance objectives set in terms of the service delivery agreement or other agreement with the parent municipality, as required by section 46 of the Municipal Systems Act (Act No.32 of 2000) read with section 121(4)(d) of the MFMA.

Annual financial statements

16. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected.

Companies Act

17. The annual return for the year 2015 was not filed with the Commissioner of the Companies and Intellectual Property Commission, as required by section 33 of the Companies Act and prescribed in the Companies Regulations 30(1).
18. No company secretary was appointed by the entity during the current year, as required by section 86(1) of the Companies Act.

Irregular expenditure

19. There was no investigation of the instances of irregular expenditure identified during the 2014/15 financial year, as required by section 32(2) of the MFMA.

Internal control

20. I considered internal control relevant to my audit of the financial statements and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion, and the findings on compliance with legislation included in this report.

Leadership

21. Leadership did not exercise adequate oversight responsibility over the financial affairs and the compliance with relevant laws and regulations of the entity which led to the material misstatements in the financial statements not being detected prior to submission of the financial statements for audit as well as the non-compliance with laws and regulations. In addition, no performance plan was developed against which to assess the performance of the entity. No evidence could be found of any oversight exercised by the accounting officer during the period under review. No entity specific policies and procedures were established to support the execution of the internal control objectives.

Financial and performance management

22. The review processes to detect and prevent non-compliance with relevant laws and regulations were not effective. Regular, accurate and complete financial information, supported by reliable information, was not prepared. Controls over the daily and monthly processing and reconciling of transactions were not implemented.

Auditor - General

Cape Town
30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence